

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### January 2008: budgetary surplus of \$0.6 billion

There was a budgetary surplus of \$0.6 billion in January 2008, compared to a surplus of \$2.4 billion in January 2007. Budgetary revenues were down \$0.9 billion, or 3.9 per cent, due in part to lower personal income tax and goods and services tax (GST) revenues. Program expenses increased by \$1.0 billion, or 5.6 per cent, reflecting higher transfer payments and operating expenses of departments and agencies. Public debt charges were down slightly.

### April 2007 to January 2008: budgetary surplus of \$10.0 billion

For the first 10 months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$10.0 billion, down \$0.6 billion from the \$10.6-billion surplus reported in the same period of 2006–07. The results to date reflect the impact of personal income tax relief measures introduced in the October 2007 Economic Statement. These measures consist of the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to \$9,600, both retroactive to January 1, 2007. Budgetary revenues increased by \$9.7 billion, or 5.2 per cent, reflecting gains across most revenue streams, particularly corporate income tax and other revenues. Program expenses were up \$10.8 billion, or 7.2 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$0.4 billion, reflecting reductions in market debt.

### January 2008

There was a budgetary surplus of \$0.6 billion in January 2008, compared to a \$2.4-billion surplus in January 2007.

Budgetary revenues fell \$0.9 billion, or 3.9 per cent, to \$21.5 billion.

- Personal income tax revenues fell \$0.6 billion, or 6.2 per cent, as the tax relief introduced in the October 2007 Economic Statement led to a reduction in collections.
- Corporate income tax revenues rose \$0.6 billion, or 20.5 per cent.
- Other income tax revenues—withholdings from non-residents—fell \$0.2 billion, or 19.5 per cent.

- Excise taxes and duties were down \$1.0 billion, or 21.4 per cent, largely due to lower GST and sales and excise tax revenues. GST revenues fell \$0.5 billion, or 16.5 per cent, as a result of the 1-percentage-point reduction in the GST rate to 5 per cent effective January 1, 2008. Sales and excise tax revenues decreased by \$0.6 billion, or 43.7 per cent, due to a temporary gain in revenues last year resulting from the one-time charge on duty deposit refunds under the Canada-United States Softwood Lumber Agreement. Customs import duties increased by \$0.1 billion and revenues from the Air Travellers Security Charge were \$2 million higher.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.



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- Employment Insurance (EI) premium revenues were down 0.7 per cent, consistent with the decline in the premium rate from \$1.80 to \$1.73 per \$100 of insurable earnings, effective January 1, 2008.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose \$0.4 billion, or 21.9 per cent.

Program expenses in January 2008 were \$18.1 billion, up \$1.0 billion, or 5.6 per cent, from January 2007, reflecting higher transfer payments and operating expenses of departments and agencies.

Transfer payments were up \$0.3 billion, or 2.7 per cent.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.2 billion, or 3.3 per cent. Elderly benefits increased by 7.4 per cent while EI benefits decreased 0.8 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were down slightly.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.4 billion, or 11.5 per cent, reflecting Budget 2007 measures.
- Subsidies and other transfers decreased by \$0.2 billion, or 7.8 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and

also reflect the ongoing assessment of the Government's liabilities. These expenses rose by \$0.6 billion, or 11.6 per cent.

Public debt charges were down slightly.

## April 2007 to January 2008

Through the first 10 months of the 2007–08 fiscal year, there was a budgetary surplus of \$10.0 billion, down \$0.6 billion from the \$10.6-billion surplus reported during the same period of 2006–07.

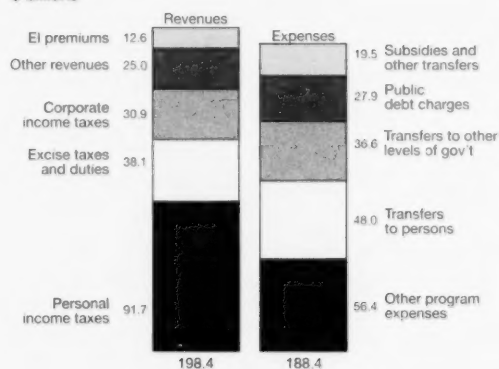
Budgetary revenues increased by \$9.7 billion, or 5.2 per cent, to \$198.4 billion.

- Personal income tax revenues increased by only \$0.2 billion, or 0.2 per cent, reflecting \$3.1 billion in tax relief measures announced in the October 2007 Economic Statement.
- Corporate income tax revenues were up \$5.5 billion, or 21.8 per cent. Part of the exceptionally strong growth to date reflects tax remittance patterns last fiscal year, when many corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made significant settlement payments in February and March 2007. As such, the year-over-year growth in corporate receipts is expected to slow in the final months of this fiscal year.

## Revenues and expenses

(April 2007 to January 2008)

\$ billions



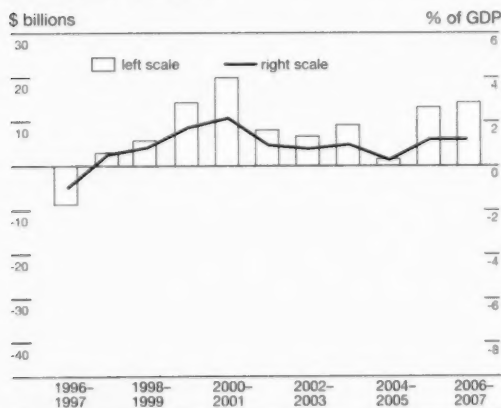
- Other income tax revenues rose \$0.2 billion, or 3.2 per cent.
- Excise taxes and duties increased by \$0.3 billion, or 0.9 per cent. GST revenues increased by \$0.3 billion, or 1.3 per cent. Customs import duties increased by \$0.3 billion, sales and excise tax revenues fell by \$0.3 billion, and revenues from the Air Travellers Security Charge increased by \$25 million.
- EI premium revenues were down \$0.1 billion, or 0.9 per cent, reflecting the declines in the premium rate to \$1.80 per \$100 of insurable earnings effective January 1, 2007, and to \$1.73 effective January 1, 2008.
- Other revenues rose \$3.7 billion, or 22.2 per cent, boosted by a gain from the sale and leaseback of seven federal office properties.

Program expenses for April 2007 to January 2008 were \$160.5 billion, up \$10.8 billion, or 7.2 per cent, from the same period the previous year, reflecting higher transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments increased by \$7.2 billion, or 7.4 per cent.

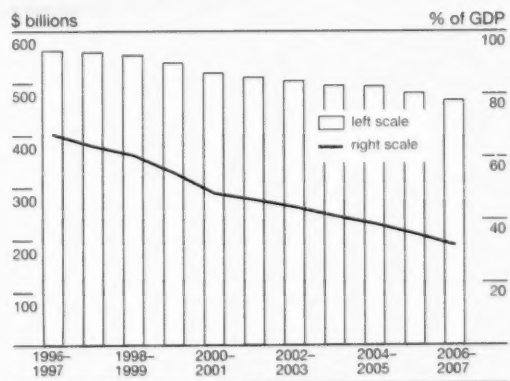
- Major transfers to persons increased by \$2.0 billion, or 4.2 per cent. Elderly benefits increased by 4.5 per cent and EI benefits by 1.4 per cent. Children's benefits were up \$0.6 billion, as transfers under the UCCB began part way through the 2006–07 fiscal year, in July 2006.
- Major transfers to other levels of government were up \$2.9 billion, or 8.6 per cent, reflecting legislated growth in the Canada Health Transfer, as well as increases to the Canada Social Transfer and Equalization introduced in Budget 2007 as part of the Government's package to restore fiscal balance in Canada.
- Subsidies and other transfers were up \$2.3 billion, or 13.4 per cent, mainly reflecting increases in payments related to the historic investment in infrastructure announced in Budget 2007 and higher transfers to Newfoundland and Labrador and Nova Scotia under the Offshore Accords.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Other program expenses increased by \$3.6 billion, or 6.8 per cent.

Public debt charges decreased by \$0.4 billion, or 1.4 per cent, reflecting lower unmatured debt levels.

## **Financial source of \$14.9 billion for April 2007 to January 2008**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of \$10.0 billion and a source of \$5.0 billion from non-budgetary transactions, there was a financial source of \$14.9 billion for April 2007 to January 2008, compared to a financial source of \$6.3 billion in the same period of 2006–07. The increase in the financial source is due in part to the appreciation of the Canadian dollar in 2007. It also reflects the personal income tax relief measures introduced in the October 2007 Economic Statement, which are retroactive to January 1, 2007, but which will primarily affect cash balances when individuals file their income tax returns for 2007.

## **Net financing activities down \$32.1 billion**

The Government used this financial source of \$14.9 billion and a reduction in its cash balances of \$17.2 billion to reduce its market debt by \$32.1 billion by the end of January 2008. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of January 2008 stood at \$4.0 billion, \$0.4 billion above their level at the end of January 2007.

Table 1

## Summary statement of transactions

|                                           | January |         | April to January |          |
|-------------------------------------------|---------|---------|------------------|----------|
|                                           | 2007    | 2008    | 2006-07          | 2007-08  |
| (\$ millions)                             |         |         |                  |          |
| <b>Budgetary transactions</b>             |         |         |                  |          |
| Revenues                                  | 22,360  | 21,483  | 188,624          | 198,363  |
| Expenses                                  |         |         |                  |          |
| Program expenses                          | -17,128 | -18,089 | -149,711         | -160,488 |
| Public debt charges                       | -2,835  | -2,802  | -28,312          | -27,912  |
| Budgetary balance (deficit/surplus)       | 2,397   | 592     | 10,601           | 9,963    |
| <b>Non-budgetary transactions</b>         | -46     | -1,930  | -4,254           | 4,985    |
| <b>Financial source/requirement</b>       | 2,351   | -1,338  | 6,347            | 14,948   |
| <b>Net change in financing activities</b> | -2,838  | -193    | -20,725          | -32,129  |
| <b>Net change in cash balances</b>        | -487    | -1,531  | -14,378          | -17,181  |
| <b>Cash balance at end of period</b>      |         |         | 3,578            | 4,023    |

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

|                                      | January       |        |        | April to January |         |        |
|--------------------------------------|---------------|--------|--------|------------------|---------|--------|
|                                      | 2007          | 2008   | Change | 2006-07          | 2007-08 | Change |
|                                      | (\$ millions) |        | (%)    | (\$ millions)    |         | (%)    |
| <b>Tax revenues</b>                  |               |        |        |                  |         |        |
| Income taxes                         |               |        |        |                  |         |        |
| Personal income tax                  | 10,257        | 9,617  | -6.2   | 91,501           | 91,682  | 0.2    |
| Corporate income tax                 | 2,911         | 3,507  | 20.5   | 25,361           | 30,882  | 21.8   |
| Other income tax                     | 822           | 662    | -19.5  | 4,681            | 4,833   | 3.2    |
| Total income tax                     | 13,990        | 13,786 | -1.5   | 121,543          | 127,397 | 4.8    |
| Excise taxes and duties              |               |        |        |                  |         |        |
| Goods and services tax               | 3,174         | 2,651  | -16.5  | 26,051           | 26,383  | 1.3    |
| Customs import duties                | 277           | 352    | 27.1   | 2,957            | 3,229   | 9.2    |
| Sales and excise taxes               | 1,326         | 746    | -43.7  | 8,505            | 8,198   | -3.6   |
| Air Travellers Security Charge       | 27            | 29     | 7.4    | 295              | 320     | 8.5    |
| Total excise taxes and duties        | 4,804         | 3,778  | -21.4  | 37,808           | 38,130  | 0.9    |
| Total tax revenues                   | 18,794        | 17,564 | -6.5   | 159,351          | 165,527 | 3.9    |
| <b>Employment Insurance premiums</b> | 1,894         | 1,880  | -0.7   | 12,734           | 12,622  | -0.9   |
| <b>Other revenues</b>                | 1,672         | 2,039  | 21.9   | 16,539           | 20,214  | 22.2   |
| <b>Total budgetary revenues</b>      | 22,360        | 21,483 | -3.9   | 188,624          | 198,363 | 5.2    |

Note: Totals may not add due to rounding.

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Table 3

## Budgetary expenses

|                                              | January       |        |        | April to January |         |        |
|----------------------------------------------|---------------|--------|--------|------------------|---------|--------|
|                                              | 2007          | 2008   | Change | 2006-07          | 2007-08 | Change |
|                                              | (\$ millions) |        | (%)    | (\$ millions)    |         | (%)    |
| <b>Transfer payments</b>                     |               |        |        |                  |         |        |
| Transfers to persons                         |               |        |        |                  |         |        |
| Elderly benefits                             | 2,590         | 2,782  | 7.4    | 25,335           | 26,479  | 4.5    |
| Employment Insurance benefits                | 1,623         | 1,610  | -0.8   | 11,388           | 11,549  | 1.4    |
| Children's benefits                          | 999           | 994    | -0.5   | 9,303            | 9,952   | 7.0    |
| Total                                        | 5,212         | 5,386  | 3.3    | 46,026           | 47,980  | 4.2    |
| Transfers to other levels of government      |               |        |        |                  |         |        |
| Support for health and other social programs |               |        |        |                  |         |        |
| Canada Health Transfer                       | 1,678         | 1,798  | 7.2    | 16,783           | 17,869  | 6.5    |
| Canada Social Transfer                       | 708           | 833    | 17.7   | 7,083            | 8,180   | 15.5   |
| Total                                        | 2,386         | 2,631  | 10.3   | 23,866           | 26,049  | 9.1    |
| Fiscal transfers                             | 1,140         | 1,281  | 12.4   | 11,093           | 12,298  | 10.9   |
| Canada's cities and communities              | 0             | 15     | n/a    | 548              | 736     | 34.3   |
| Early learning and child care                | 0             | 0      | n/a    | 650              | 0       | n/a    |
| Alternative Payments for Standing Programs   | -227          | -249   | 9.7    | -2,508           | -2,530  | 0.9    |
| Total                                        | 3,299         | 3,678  | 11.5   | 33,649           | 36,553  | 8.6    |
| Subsidies and other transfers                |               |        |        |                  |         |        |
| Agriculture and Agri-Food                    | 556           | 216    | -61.2  | 2,257            | 1,922   | -14.8  |
| Foreign Affairs and International Trade      | 834           | 595    | -28.7  | 2,410            | 2,082   | -13.6  |
| Health                                       | 204           | 232    | 13.7   | 1,603            | 1,710   | 6.7    |
| Human Resources and Social Development       | 197           | 278    | 41.1   | 1,383            | 1,504   | 8.7    |
| Indian Affairs and Northern Development      | 373           | 369    | -1.1   | 3,929            | 4,060   | 3.3    |
| Industry                                     | 147           | 110    | -25.2  | 1,665            | 1,590   | -4.5   |
| Other                                        | 749           | 1,021  | 36.3   | 3,986            | 6,669   | 67.3   |
| Total                                        | 3,060         | 2,821  | -7.8   | 17,233           | 19,537  | 13.4   |
| Total transfer payments                      | 11,571        | 11,885 | 2.7    | 96,908           | 104,070 | 7.4    |
| <b>Other program expenses</b>                |               |        |        |                  |         |        |
| Crown corporation expenses                   |               |        |        |                  |         |        |
| Canadian Broadcasting Corporation            | 96            | 59     | -38.5  | 1,042            | 986     | -5.4   |
| Canada Mortgage and Housing Corporation      | 205           | 211    | 2.9    | 1,715            | 1,684   | -1.8   |
| Other                                        | 294           | 232    | -21.1  | 2,872            | 3,269   | 13.8   |
| Total                                        | 595           | 502    | -15.6  | 5,629            | 5,939   | 5.5    |
| Defence                                      | 1,422         | 1,603  | 12.7   | 13,049           | 14,448  | 10.7   |
| All other departments and agencies           | 3,540         | 4,099  | 15.8   | 34,125           | 36,031  | 5.6    |
| Total other program expenses                 | 5,557         | 6,204  | 11.6   | 52,803           | 56,418  | 6.8    |
| <b>Total program expenses</b>                | 17,128        | 18,089 | 5.6    | 149,711          | 160,488 | 7.2    |
| <b>Public debt charges</b>                   | 2,835         | 2,802  | -1.2   | 28,312           | 27,912  | -1.4   |
| <b>Total budgetary expenses</b>              | 19,963        | 20,891 | 4.6    | 178,023          | 188,400 | 5.8    |

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

|                                                        | January       |        | April to January |         |
|--------------------------------------------------------|---------------|--------|------------------|---------|
|                                                        | 2007          | 2008   | 2006-07          | 2007-08 |
|                                                        | (\$ millions) |        |                  |         |
| <b>Budgetary balance (deficit/surplus)</b>             | 2,397         | 592    | 10,601           | 9,963   |
| <b>Non-budgetary transactions</b>                      |               |        |                  |         |
| Capital investing activities                           | -177          | -303   | -1,749           | -1,828  |
| Other investing activities                             | -20           | -1,506 | -974             | -3,079  |
| Pension and other accounts                             | -157          | -1,348 | 3,696            | 4,035   |
| Other activities                                       |               |        |                  |         |
| Accounts payable, receivables, accruals and allowances | 1,589         | 2,096  | -7,409           | 349     |
| Foreign exchange activities                            | -1,487        | -1,157 | -282             | 3,620   |
| Amortization of tangible capital assets                | 206           | 288    | 2,464            | 1,888   |
| Total other activities                                 | 308           | 1,227  | -5,227           | 5,857   |
| <b>Total non-budgetary transactions</b>                | -46           | -1,930 | -4,254           | 4,985   |
| <b>Net financial source/requirement</b>                | 2,351         | -1,338 | 6,347            | 14,948  |

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

|                                                              | January       |        | April to January |         |
|--------------------------------------------------------------|---------------|--------|------------------|---------|
|                                                              | 2007          | 2008   | 2006-07          | 2007-08 |
|                                                              | (\$ millions) |        |                  |         |
| <b>Net financial source/requirement</b>                      | 2,351         | -1,338 | 6,347            | 14,948  |
| <b>Net increase (+)/decrease (-) in financing activities</b> |               |        |                  |         |
| Unmatured debt transactions                                  |               |        |                  |         |
| Canadian currency borrowings                                 |               |        |                  |         |
| Marketable bonds                                             | 2,120         | 168    | -2,968           | -7,290  |
| Treasury bills                                               | -5,700        | -1,500 | -12,600          | -19,800 |
| Canada Savings Bonds                                         | -74           | -19    | -1,951           | -1,957  |
| Other                                                        | 0             | 0      | -1,160           | -699    |
| Total                                                        | -3,654        | -1,351 | -18,679          | -29,746 |
| Foreign currency borrowings                                  | 507           | 222    | -3,431           | -875    |
| Total                                                        | -3,147        | -1,129 | -22,110          | -30,621 |
| Cross-currency swap revaluation                              | 96            | 656    | 1,431            | -2,233  |
| Unamortized discounts on debt issues                         | 219           | 297    | 29               | 316     |
| Obligations related to capital leases                        | -6            | -17    | -75              | 409     |
| <b>Net change in financing activities</b>                    | -2,838        | -193   | -20,725          | -32,129 |
| <b>Change in cash balance</b>                                | -487          | -1,531 | -14,378          | -17,181 |

Note: Totals may not add due to rounding.

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Table 6

## Condensed statement of assets and liabilities

|                                                     | March 31, 2007 | January 31, 2008 | Change  |
|-----------------------------------------------------|----------------|------------------|---------|
|                                                     | (\$ millions)  |                  |         |
| <b>Liabilities</b>                                  |                |                  |         |
| Accounts payable, accruals and allowances           | 106,511        | 104,731          | -1,780  |
| Interest-bearing debt                               |                |                  |         |
| Unmatured debt                                      |                |                  |         |
| Payable in Canadian dollars                         |                |                  |         |
| Marketable bonds                                    | 257,482        | 250,192          | -7,290  |
| Treasury bills                                      | 134,074        | 114,274          | -19,800 |
| Canada Savings Bonds                                | 15,175         | 13,219           | -1,957  |
| Other                                               | 1,743          | 1,044            | -699    |
| Subtotal                                            | 408,474        | 378,728          | -29,746 |
| Payable in foreign currencies                       | 10,372         | 9,497            | -875    |
| Cross-currency swap revaluation account             | -1,091         | -3,324           | -2,233  |
| Unamortized discounts and premiums on market debt   | -6,659         | -6,343           | 316     |
| Obligations related to capital leases               | 3,096          | 3,505            | 409     |
| Total unamatured debt                               | 414,192        | 382,063          | -32,129 |
| Pension and other accounts                          |                |                  |         |
| Public sector pensions                              | 134,726        | 136,260          | 1,534   |
| Other employee and veteran future benefits          | 45,123         | 47,089           | 1,966   |
| Other pension and other accounts                    | 5,211          | 5,746            | 535     |
| Total pension and other accounts                    | 185,060        | 189,094          | 4,035   |
| Total interest-bearing debt                         | 599,252        | 571,158          | -28,095 |
| <b>Total liabilities</b>                            | 705,763        | 675,889          | -29,874 |
| <b>Financial assets</b>                             |                |                  |         |
| Cash and accounts receivable                        | 92,586         | 73,275           | -19,311 |
| Foreign exchange accounts                           | 44,178         | 40,558           | -3,620  |
| Loans, investments and advances (net of allowances) | 45,094         | 48,173           | 3,079   |
| <b>Total financial assets</b>                       | 181,858        | 162,006          | -19,852 |
| <b>Net debt</b>                                     | 523,905        | 513,883          | -10,022 |
| <b>Non-financial assets</b>                         | 56,637         | 56,577           | -60     |
| <b>Federal debt (accumulated deficit)</b>           | 467,268        | 457,306          | -9,963  |

Note: Totals may not add due to rounding.

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